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MARX'S *CAPITAL* AFTER ONE HUNDRED YEARS

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A recurring lament in commemorations of classic works is that they are so well known that little remains to be said about them. This is certainly not true of Marx's *Capital*. Its difficult method of presentation, the numerous myths about it which have grown up over the years, and recent tendencies to mathematicize popular conceptions of Marxian economics in lieu of digging into Marx's own writings¹ have together made this work almost as little understood today as it has ever been. Böhm-Bawerk's famous "refutation" of Marx's "labour theory of value" continues to be reproduced, along with the economic "breakdown" of capitalism theory, the "dialectical" forces at work, and all the old familiar cast of fictitious characters. If one accepts the cynical definition of a classic as a work that everyone talks about and no one reads, there is certainly no more classic work in economics than *Capital*. The hundredth anniversary of its publication seems an appropriate time to re-examine not only the book itself but also the beliefs about it which have acquired a life—almost an immortality—of their own.

In keeping with Marx's intention, *Capital* will be broadly defined to include the *Theories of Surplus Value*, a history of economic thought which he planned as the final volume of this work.² A special relevance must also be noted for his *Critique of Political Economy*, the first part of an abortive attempt to write the book that was to become *Capital*.

I / The influence of Hegel

Like most current myths about Marx, belief in a pervasive Hegelian influence on *Capital* is very old, extending back to the lifetime of Marx and Engels, who replied to these beliefs, but whose replies have been largely ignored in later discussion. The belief in Hegel's influence usually takes one of several forms: (1) the view that Marx forced his theories into a thesis-antithesis-synthesis mould, that (2) various Marxian economic or social theories or conclusions depend upon Hegelian assumptions or arguments, or that (3) the "inevitability" of Marx's results is Hegelian, even if the results themselves are not.

¹There is, of course, nothing wrong with rendering the theories of an economist of the past in a more rigorous or mathematical manner than in the original, where this can be accomplished without doing violence to their meaning. But modernity can never be a substitute for knowing what you are talking about. Surely it is the ultimate in a new concept of scholarship when articles can be written on Marxian economics without a single citation of anything that Marx ever said! Cf. Paul A. Samuelson, "Wages and Interest: A Modern Dissection of Marxian Economic Models," *American Economic Review*, Dec. 1957, 884–912; Martin Bronfenbrenner, "Das Kapital for the Modern Man," *Science & Society*, Fall 1965, 419–38.

²Karl Marx and Frederick Engels, *Selected Correspondence*, trans. D. Torr (New York: International Publishers, 1942), 215, 219. Cited hereafter as *Correspondence*.

LE CAPITAL DE MARX APRES CENT ANS

THOMAS SOWELL

L'éternelle plainte au sujet des ouvrages classiques est qu'ils sont tellement bien connus qu'il reste assez peu à dire à leur propos. Ceci n'est certes pas vrai du Capital de Marx. Sa présentation ardue, les mythes croissants à son sujet et les tendances récentes à formuler en termes mathématiques les conceptions populaires de l'économie marxiste au lieu de recherches en profondeur dans les écrits mêmes de Marx sont autant de facteurs qui expliquent que cette oeuvre n'est pas plus comprise aujourd'hui qu'elle l'a jamais été.

L'influence de Hegel sur Marx est surtout terminologique, mais ceci n'implique pas qu'elle doive être négligée. Pour comprendre Marx il est souvent essentiel de comprendre le langage et la méthode de Hegel empruntés par Marx pour exprimer ses propres idées.

La théorie marxiste des cycles économiques n'implique ni la sous-consommation, ni la chute des taux de profits, ni même l'écrasement éventuel du capitalisme. Même les arguments voulant que la théorie ait impliqué ces éléments, si Marx avait vécu pour compléter le Capital, sont très ténus. La correspondance entre Marx et Engels révèle que les deux hommes considéraient le Capital comme une oeuvre complète du point de vue de son contenu analytique, mais non publiable du point de vue de sa forme littéraire.

Marx n'avait pas de théorie de la valeur-travail. Il expliqua à plus d'une reprise qu'il avait une « définition » de la valeur dans le Capital et dans sa Critique of Political Economy. Marx et Engels ont explicitement rejeté l'idée d'un gouvernement socialiste qui fixerait les prix selon le travail ou autrement.

The formula thesis-antithesis-synthesis does not appear anywhere in *Capital*. Indeed, among Marx's published works it appeared only in *The Poverty of Philosophy* as a sarcastic characterization of Proudhon's attempt to be Hegelian.³ Specialists on Hegel have argued that this notion was equally insignificant in Hegel's writings.⁴ However, since social change usually represents the incomplete victory of the protagonists of change over its opponents, the theories of anyone who deals with social change can readily be forced into the thesis-antithesis-synthesis mould by commentators. But this is no more peculiarly true of Marxian theories than those of Burke, Mill, Veblen, or Schumpeter.

Numerous Hegelian phrasings and conceptualizations appear in Marxian writings, and more so in *Capital* than in most of his works. The significant question, however, is whether the *substance* of what Marx said was affected by Hegelian doctrines, or whether he simply dressed up his own vision in Hegelian trappings.⁵

³(New York: International Publishers, 1963), 105, 107, 150, 151.

⁴Gustav E. Mueller, "The Hegel Legend of 'Thesis-Antithesis-Synthesis,'" *Journal of the History of Ideas*, June 1958, 411-14.

⁵For example: "These three events—the so-called Revival of Learning, the flourishing of

The only full-scale attempt by Marx or Engels to explain the connection between their philosophy and that of Hegel was Engels' *Ludwig Feuerbach and the End of Classical German Philosophy*.⁶ Here he said that he and Marx took from Hegel the "great basic thought that the world is not to be comprehended as a complex of ready-made *things*, but as a complex of *processes*. . . ."⁷ *Capital* was Hegelian in the very general sense of emphasizing the dynamics of capitalism—"the law of motion" of capitalism in Marx's words—rather than its static equilibrium conditions. When it came to specific economic doctrines found in *Capital*, Marx and Engels were insistent that the Hegelian phrasing and conceptualization had nothing to do with the substance of what was presented in this way. To a contemporary reviewer of the first volume of *Capital* who had noted its distinctly Hegelian flavour, Marx replied that his "method of presentation" differed from his method of "inquiry," though "it may appear as if we had before us a mere a priori construction."⁸ Engels in *Anti-Dühring* examined several allegedly Hegelian notions from *Capital*, explaining in each case that the conclusion reached derived from the empirical evidence and economic analysis which preceded it. For example:

. . . what role does the negation of the negation play in Marx? On page 834 and the following pages he sets out the conclusions which he draws from the preceding fifty pages of economic and historical investigation. . . .⁹

Engels concludes:

In characterising the process as the negation of the negation, therefore, Marx does not dream of attempting to prove by this that the process was historically necessary. On the contrary: after he has proved from history that in fact the process has partially already occurred, and partially must occur in the future, he then also characterises it as a process which develops in accordance with a definite dialectical law. That is all.¹⁰

Marx had made a similar statement of his approach more than a quarter of a century earlier: "It is hardly necessary to assure the reader conversant with

the Fine Arts and the discovery of America and of the passage to India by the Cape—may be compared with that *blush of dawn*, which after long storms first betokens the return of a bright and glorious day." G. W. F. Hegel, *The Philosophy of History*, trans. U. Sibrée (New York, 1956), pp. 410–11. "The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the aboriginal population, the beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of black-skins, signalled the rosy dawn of the era of capitalist production." *Capital* (Chicago: Charles H. Kerr & Company, 1906), 823. The pagination of this edition is the same as that of the Modern Library Giant edition.

⁶"We have expressed ourselves in various places regarding our relation to Hegel, but nowhere in a comprehensive, connected account. . . . a short, connected account of our relation to the Hegelian philosophy, of how we proceeded from it as well as how we separated from it, appeared to me to be required more and more." Friedrich Engels, *Ludwig Feuerbach and the End of Classical German Philosophy*, reprinted in Lewis S. Feuer, ed., *Basic Writings on Politics & Philosophy* (New York, 1959), 195, 196.

⁷*Ibid.*, 226. Italics in all quotations in this paper are in the original.

⁸*Capital*, I, 25. Marx observed elsewhere that "to bring a science to the point where it can be dialectically presented is an altogether different thing from applying an abstract ready-made system. . . ." *Correspondence*, 105.

⁹*Herr Eugen Dühring's Revolution in Science* (1878) (New York, International Publishers, 1939), 145. Cited hereafter as *Anti-Dühring*.

¹⁰*Ibid.*, 147.

political economy that my results have been won by means of a wholly empirical analysis based on a conscientious study of political economy."¹¹

This still leaves the question as to why *Capital* should be so Hegelian in its presentation as compared to the *Communist Manifesto* and other Marxian writings. In the early 1840's Marx had used much Hegelian imagery,¹² as might be expected in view of his recent study at the University of Berlin where the Hegelian influence had been dominant. But once having moved away from this method of exposition, why should he return to it a quarter of a century later? Marx provided the answer in his introduction to *Capital*:

The mystifying side of the Hegelian dialectic I criticised nearly thirty years ago, at a time when it was still the fashion. But just as I was working at the first volume of 'Das Kapital,' it was the good pleasure of the peevish, arrogant, mediocre [epigoni] who now talk large in cultured Germany, to treat Hegel in the same way as the brave Moses Mendelssohn in Lessing's time treated Spinoza, *i.e.*, as a 'dead dog.' I therefore openly avowed myself the pupil of that mighty thinker, and even here and there, in the chapter on the theory of value, coquetted with the modes of expression peculiar to him.¹³

Engels declared it a "blunder" to identify "Marxian dialectics with the Hegelian. . . ."¹⁴ Nor was it merely a question of standing Hegel on his head. The Marxian approach was "a guide to study, not a lever for construction after the manner of the Hegelians."¹⁵ Hegel was attacked for making the world seem to be ruled by his laws, rather than depicting these laws as empirical generalizations about the world.¹⁶ This inversion had been noted and satirized by Marx and Engels in the early eighteen-forties.¹⁷ Yet it might seem that there is a suggestion of this Hegelian practice in the "inevitable" triumph of the proletariat depicted by the *Communist Manifesto* and the "inexorability" of the end of capitalism depicted in *Capital*.¹⁸ However, inevitability in general and the modern Western idea of the inevitability of progress in particular have come from many sources besides Hegel. Moreover, there is a serious question as to the degree of inevitability (if that expression is permissible) in which Marx and Engels believed. In 1863 Marx wrote to Engels that "the comfortable delusions and the almost childish enthusiasm with which we hailed the era of revolution before February 1848 have all

¹¹Karl Marx, *Economic and Philosophic Manuscripts of 1844*, transl. M. Milligan (Moscow: Foreign Languages Publishing House, 1961), 15.

¹²*E.g.*, his manuscripts cited above, *The Holy Family* (1845), *The German Ideology* (1845–46), and articles of the period. For an analysis of the Hegelian significance of these writings, see Herbert Marcuse, *Reason and Revolution: Hegel and the Rise of Social Theory*, 2nd ed. (New York, 1954), 273–95.

¹³*Capital*, I, 25. Marx was, of course, Hegel's pupil only in a figurative sense.

¹⁴*Anti-Dühring*, 136.

¹⁵*Correspondence*, 473

¹⁶Frederick Engels, *Dialectics of Nature*, 3rd rev. ed. (Moscow: Progress Publishers, 1964), 63; *Anti-Dühring*, 42.

¹⁷Karl Marx and Friedrich Engels, *The German Ideology* (New York: International Publishers, 1947), 114–15. See also Marx and Engels, *The Holy Family* (Moscow: Foreign Languages Publishing House, 1956), 78–9.

¹⁸Karl Marx and Friedrich Engels, *The Communist Manifesto*, (1848; Eng. trans., 1888) reprinted in Emile Burns, ed., *A Handbook of Marxism* (New York, 1935), 36; *Capital*, I, 837.

gone to hell.”¹⁹ Later in the same year, after rereading Engels’ *The Condition of the Working Class in England in 1844*, Marx wrote:

Re-reading your book has made me regretfully aware of our increasing age. How freshly and passionately, with what bold anticipations and no learned and scientific doubts, the thing is still dealt with here! And the very illusion that the result itself will leap into the daylight of history tomorrow or the day after gives the whole thing a warmth and jovial humour—compared to which the later ‘gray in gray’ makes a damned unpleasant contrast.²⁰

In 1871 Marx observed: “World history would indeed be very easy to make, if the struggle were taken up only on condition of infallibly favourable chances.”²¹ There is no reason to doubt that Marx still considered the communist revolution “inevitable” in the sense that he still retained faith that it would happen, but there is also no reason to believe that he regarded it as a mathematical certainty because of some Hegelian formula which guaranteed “infallibly favourable chances.”

Contrary to popular belief, Marx had no iron laws for history to follow, nor did he regard history as leading up to communism as the ultimate consummation, after which further development would cease.²² Likewise, he did not claim that there were predestined “stages” through which all countries must pass, or that the expected communist revolution was (because of these “stages”) going to occur in the United States before it occurred in Russia. Indeed, Marx said the opposite of all these things. To a Russian writer who had argued that his country must pass through the necessary stages of development, Marx replied that the chapter in *Capital* on which he had based himself “does not pretend to do more than trace the path by which, in Western Europe, the capitalist order of economy emerged from the womb of the feudal order of economy.”²³ He added:

But that is not enough for my critic. He feels himself obliged to metamorphose my historical sketch of the genesis of capitalism in Western Europe into an historico-philosophic theory of the *marche generale* imposed by fate upon every people, whatever the historic circumstances in which it finds itself. . . . But I beg his pardon. (He is both honouring and shaming me too much.)²⁴

Similarly Marx never pretended to develop a theory of differential national propensities to revolution. More specifically, he did not regard the United States as being closer to revolution than Russia. Among the contrasts Marx

¹⁹*Correspondence*, 144.

²⁰*Ibid.*, 147.

²¹*Ibid.*, 310.

²²“*Communism* is the necessary form and the active principle of the immediate future, but communism is not itself the aim of human development or the final form of human society.” This statement in a manuscript left unpublished in Marx’s lifetime and printed in T. B. Bottomore and M. Rubel, eds., *Selected Writings in Sociology and Social Philosophy* (London, 1956), 246, only states succinctly what was clearly implied in his published writings. For example, *The Poverty of Philosophy* closed (p. 175) with the assertion that in Marx’s society of the future social evolution could take place without political revolution. Engels similarly rejected any idea of “socialist society” as “a stable affair fixed once and for all.” *Correspondence*, 473.

²³*Correspondence*, 353.

²⁴*Ibid.*, 354.

found between the two countries was that in the U.S. "the masses . . . have greater political means in their hands"²⁵ to protect themselves; Engels doubted that "the evil consequences of modern capitalism in Russia will be as easily overcome as they are in the United States," adding that "the change, in Russia, must be far more violent, far more incisive, and accompanied by immensely greater sufferings than it can be in America."²⁶ None of this, however, was based on any "law" but only on *ad hoc* judgments.

The fact that Hegel's influence on Marx was largely terminological does not mean that it can be safely ignored. For example, perhaps no single word has led to more misconception of Marx's *Capital* than the Hegelian term, "contradiction." This expression does not mean physical impossibility, logical error, or economic deadlock. It refers to internal conflicting forces which transform the entity of which they are part. According to Hegel "contradiction" was "the very moving principle of the world" rather than something which was "unthinkable."²⁷

It is obvious how this relates to the transformation of capitalism into socialism *via* the opposition of employers and employees, whose relationship to each other was the necessary and defining feature of capitalism. It helps explain the repeated presence in Marx and Engels of metaphors which turn on metamorphoses in nature—the transformation (not paralysis) of natural organisms by their own internal forces, as when a germinating seed bursts its integument²⁸ or a caterpillar turns itself into a butterfly.²⁹ Marx spoke of "contradictions" in terms of "conflicting elements" in his *Theories of Surplus Value*, and his use of the term to designate various theories of his own in *Capital* obviously indicates that he was not using it in the conventional sense of logical error.³⁰

The importance of the Hegelian meaning of this word must be insisted upon because so many interpreters of Marx have either explicitly or implicitly made the conventional meaning of contradiction the basis for imputing to Marx a theory that capitalism will experience an economic breakdown or

²⁵*Ibid.*, 360–1.

²⁶*Ibid.*, 513–14. This is not to claim that Marx's and Engels' analyses of Russia were always acute. For example: "A few days ago a Petersburg publisher surprised me with the news that a Russian translation of *Das Kapital* is now being printed. . . . My book against Proudhon (1847) and the one published by Duncker (1859) have had a greater sale in Russia than anywhere else. And the first foreign nation to translate *Kapital* is the Russian. But too much should not be made of all this." Karl Marx, *Letters to Dr. Kugelmann* (New York: International Publishers, 1934), 77.

²⁷G. W. F. Hegel, *The Science of Logic*, transl. W. Wallace (London, 1892), 223. See also Marcuse, *Reason and Revolution*, 143.

²⁸*Capital*, I, 837.

²⁹For example, "like a butterfly from the chrysalis, the bourgeoisie arose out of the burghers of the feudal period. . . ." *Anti-Dühring*, 117. See also Karl Marx, *Wage Labour and Capital* (Moscow: Foreign Languages Publishing House, 1947), 22; Karl Marx, *Theories of Surplus Value*, transl. G. A. Bonner and Emile Burns (New York: International Publishers, 1952), 186; *Engels on Capital*, ed. and transl. Leonard E. Mins (New York: International Publishers, 1937), 60; a similar metaphor involving the metamorphosis of crabs was also used (*Correspondence*, 485) and reference to metamorphosis in general is even more common.

³⁰*Theories of Surplus Value*, 377, and, for example, chap. iv of vol. I ("Contradictions in the Formula for Capital") and chap. xv of vol. III ("Unravelling the Internal Contradictions of the Law" of the falling rate of profit) of *Capital*.

classical stationary state because of the contradictions to which he refers.³¹ No such theory appears in *Capital*. Those who claim that it does are driven to the farcical situation in which they all quote each other and ignore Marx.³² In *Capital* Marx described economic crises as “transient”³³ and “momentary”³⁴ phenomena, and said: “There are no permanent crises.”³⁵ This is compatible with Marx’s assertion that capitalism begets “its own negation.”³⁶ Engels has identified this as an Hegelian expression, and Hegel was quite clear as to its meaning: “. . . Negation . . . resolves itself not into nullity, into abstract Nothingness, but essentially only into the negation of its *particular* content. . . .”³⁷ A capitalist economy thus does not annihilate itself as an economy, but rather generates the internal pressures which transform it into a socialist economy.

Another and perhaps even more important instance in which the Hegelian influence in form crucially affected the understanding of the substance of what was said was the discussion of “value” in *Capital*. Here the presentation followed what Marx called the “dialectical method”³⁸—proceeding through successive levels of abstraction from the “essence” to the “appearance.” The difficulties and misunderstandings this created will be explored in Section IV.

II / Business cycles

Although Marx did not claim that capitalism would be destroyed by a cataclysmic depression, business cycles were very important in his over-all picture of capitalism, since it was these “crises that by their periodical return put the existence of the entire bourgeois society on its trial, each time more threateningly.”³⁹

A distinction must be made between the general conditions which enable business cycles to occur and specific precipitating factors. Marx made this point in criticizing John Stuart Mill for depicting money and credit as causes of cyclical downturns.⁴⁰ The distinction is particularly important in Marx’s case. Since crises were for him a peculiarity of capitalism, he had to show what conditions of capitalism permit crises to occur and, within that framework, what forces actually trigger downturns. The former are obviously the

³¹“Contradiction” was explicitly cited as the basis for this interpretation in Bernice Shoul, “Karl Marx and Say’s Law,” *Quarterly Journal of Economics*, Nov. 1957, 626n.

³²For example, Martin Bronfenbrenner cites Paul M. Sweezy, who in turn cites a number of other economists—not including Karl Marx. Bronfenbrenner, “*Das Kapital* for the Modern Man,” 419; Paul M. Sweezy, *The Theory of Capitalist Development* (New York, 1956), chap. xi.

³³*Capital*, III, 568.

³⁴*Ibid.*, III, 292.

³⁵*Theories of Surplus Value*, 373n.

³⁶*Capital*, I, 837.

³⁷Quoted in Marcuse, *Reason and Revolution*, 124. Engels cited the same definition of “negation”: *Dialectics of Nature*, 225.

³⁸*Letters to Dr. Kugelmann*, 111–12. See also Karl Marx, *A Contribution to the Critique of Political Economy* (Chicago: Charles H. Kerr & Company, 1904), 292–4; *Correspondence*, 204.

³⁹Marx and Engels, *The Communist Manifesto*, 29.

⁴⁰*Theories of Surplus Value*, 379. The distinction between the factors making for the possibility of crises and those actually producing them was made repeatedly: *ibid.*, 381, 383–4, 386; *Capital*, I, 128.

more ideologically important and receive repeated attention as a result. The problem arises when this causes them to be confused with the latter as economic variables.

The problem of capitalism, according to Marx, is that production “comes to a standstill at a point determined by the production and realisation of profit, not by the satisfaction of social needs.”⁴¹ No level of output yet attained—in the economy as a whole or in any particular sector—would be unsustainable or excessive relative to unmet needs.⁴² Thus “the last cause of all real crises is the poverty and restricted consumption of the masses. . . .”⁴³ Did this mean that a decline in consumption precipitates crises? Emphatically not, according to Marx, who repeatedly asserted in *Capital* that consumption tends to *increase* in the cyclical phase preceding the onset of a crisis.⁴⁴ He declared:

It is purely a tautology to say that crises are caused by a scarcity of solvent customers or of a paying consumption. . . . If any commodities are unsaleable it means that no solvent customers have been found for them. . . . But if one were to attempt to clothe this tautology with a semblance of a profounder justification by saying that the working class receive too small a portion of their own product, and the evil would be remedied by giving them a larger share of it, or raising their wages, we should reply that crises are precisely always preceded by a period in which wages rise generally and the working class actually get a larger share of the annual product intended for consumption. From the point of view of the advocates of “simple” (!) common sense, such a period should rather remove a crisis.⁴⁵

Despite Marx's unequivocal statements, the absence of an underconsumptionist or breakdown theory of business cycles has been blamed on the unfinished state of *Capital* at Marx's death.⁴⁶ In this connection, however, two important points must be noted:

I. Marx was well aware that he was a sick man who had had close calls with death before the first volume of *Capital* appeared.⁴⁷ Accordingly he elaborated in letters to Engels most of the important doctrines which he wished to develop in *Capital*.⁴⁸ For example, the transformation of values into prices was explained to Engels in 1862, five years before publication of the first volume—a fact overlooked by the literature on Marx's “change of mind” between volumes I and III.⁴⁹ Similarly, one of Marx's letters mentioned the business cycle theory which he expected to unfold in the later volumes of *Capital*. It contained no suggestion of either “breakdown” or underconsumption. Rather, Marx noted that Engels' “Outlines of a Critique of Political Economy”—written in 1843 and featuring disproportionality—was still a valid representation of business cycles as they would appear in *Capital*.⁵⁰ The discussion of cycles in the posthumous volumes (including *Theories of Surplus Value*) did

⁴¹*Capital*, III, 303.

⁴²*Theories of Surplus Value*, 394.

⁴³*Capital*, III, 658.

⁴⁴*Ibid.*, II, 86, 362, 475; III, 359, 528, 567.

⁴⁵*Ibid.*, II, 475–6.

⁴⁶Paul M. Sweezy, *The Theory of Capitalist Development*, 176.

⁴⁷Marx complained of his “continual relapses” (*Correspondence*, 215) and of having been “on the verge of the grave” (219) among numerous references to his poor health. See also his *Letters to Dr. Kugelmann*, 35, 90, and Franz Mehring, *Karl Marx: The Story of His Life* (New York, 1935), 275.

⁴⁸*Correspondence*, 105–9, 129–33, 137–8, 153–6, 238–45, 266–74.

⁴⁹*Ibid.*, 129–33.

⁵⁰*Ibid.*, 232. Engels' work had appeared in the *Deutsch-Französische-Jahrbücher* in 1844.

in fact faithfully follow the pattern of Engels' article, as will be seen below. However more polished and logically complete Marx's cycle theory might have been had he lived to complete it himself, there is no reason to suppose that it would have been fundamentally different from what he left.

2. The *theoretical* incompleteness of *Capital*—as distinguished from its need for re-writing—should not be exaggerated. Engels pointed out that the “essential parts” of volume III (in which business cycle theory was introduced) were completed in manuscript before Marx turned to the final draft of volume I for publication.⁵¹ This is independently confirmed by Marx's correspondence where he asserted that because *Capital* was “dialectically constructed” he had to see it “as a *whole*” before he could bring himself to send the first volume off to be printed.⁵² In 1866 Marx declared the manuscript of the third volume “finished” though far from a publishable state.⁵³ If Marx had had a theory which would explain the complete and irreparable collapse of the capitalist economy, it is difficult to understand its absence from the “essential parts” of his business cycle theory or how the manuscript of the third volume could be considered analytically “finished” without it.

Although neither the elements of Marxian business cycle theory nor their combination is remarkable today, they were far in advance of the economic thinking of his time. While classical economics had made cyclical downturns the result of exogenous forces such as war or governmental interference,⁵⁴ Marx depicted economic crises as necessary consequences of the working of a capitalist economy. Where the early opponents of Say's Law—Lauderdale, Malthus, and Chalmers, for example—had been content to show how it was possible to have “general gluts,” Marx repeatedly scorned the route of showing mere possibilities of crisis,⁵⁵ attempting instead to show why they were a necessary concomitant of capitalist conditions.

A. ORIGINS OF CRISES

Marx saw capitalism as a system of unplanned production for a market coordinated by price fluctuations and expanding rapidly over time. All these features contributed to cyclical fluctuations. Because it was production for a market, rather than for the use of the individual producer himself, there was no necessary connection between the quantities produced and desired.⁵⁶ This

⁵¹Engels' “Preface” to *Capital*, II, 9.

⁵²*Correspondence*, 204.

⁵³*Ibid.*, 205. After Marx's death, Engels noted that “The 3rd book is complete since 1869–1870 and has never been touched since.” Frederick Engels, Paul and Laura Lafargue, *Correspondence* (Moscow: Foreign Languages Publishing House, 1959), I, 134. This appears to contradict Engels' lament elsewhere that the manuscript of the third volume was “incomplete” (*Capital*, III, 11). However, the specifics of this lament indicated that it was a literary incompleteness to which Engels referred, or the incomplete working out of theories which were present rather than the absence of theories which Marx had not gotten around to mentioning at all.

⁵⁴Jean-Baptiste Say, *A Treatise on Political Economy*, transl. C. R. Prinsep (Philadelphia, Grigg & Elliot, 1846), 135; David Ricardo, *The Works and Correspondence of David Ricardo*, ed. Piero Sraffa (Cambridge, 1953), I, chap. xix; II, 306, 415; VIII, 277.

⁵⁵See note 40.

⁵⁶“In conditions in which men produce for themselves, there are in fact no crises, but also no capitalist production.” *Theories of Surplus Value*, 380.

exemplified the dialectical relationship between necessity and accident⁵⁷: it was necessary that production and wants correspond *ex post* but it was accidental whether they would correspond *ex ante*, price fluctuations being a symptom (and corrective) of the divergence:

The *a priori* system on which the division of labour, within the workshop, is regularly carried out, becomes in the division of labour within the society, an *a posteriori*, nature-imposed necessity, controlling the lawless caprice of the producers, and perceptible in the barometrical fluctuations of the market prices.⁵⁸

Because there was no *ex ante* co-ordination—or in Marx's terms "*a priori* . . . conscious social regulation of production"⁵⁹—and because the economy adjusts "after the fact"⁶⁰ price fluctuations were necessary and the prospect of violent price fluctuations from time to time inherent. "Violent fluctuations of price . . . cause interruptions, great collisions, or even catastrophies in the process of reproduction."⁶¹ In a stationary or slowly growing economy, price oscillations would tend to dampen down to the long-run equilibrium price or cost of production. This could not happen, however, under dynamic capitalism, where the incessant growth of output and demand left no opportunity for the producers to discover the equilibrium quantities of their respective products. There was no "predestined circle of supply and demand."⁶² As Marx had expressed it much earlier: "This true proportion between supply and demand . . . was possible only at a time when the means of production were limited, when the movement of exchange took place within very restricted bounds."⁶³ The reproduction models in Volume II of *Capital* showed the intricate adjustments necessary for equilibrium even under stationary conditions and then still more so under conditions of dynamic growth. Here not only the inter-related output and consumption of various sectors were considered but also the sporadic formation and liquidation of hoards connected with capital replacement and expansion. Marx concluded: "These conditions become so many causes of abnormal movements, implying the possibility of crises, since a balance is an accident under the crude conditions of this production."⁶⁴

The germ of the Marxian theory of the downturn—disproportionality and

⁵⁷Necessity and chance were among the polar opposites which dialectical thinking refused to accept as mutually exclusive in reality. Chance affected the most necessary results and certain necessary relationships could be discovered in the pattern of events which were individually the result of chance. Thus "dialectics reduced itself to the science of the general laws of motion . . . these laws assert themselves unconsciously, in the form of external necessity in the midst of an endless series of seeming accidents." (Engels, *Ludwig Feuerbach and the End of Classical German Philosophy*, 226). Again, "chance is only one pole of an interrelation, the other pole of which is called necessity. In nature, where chance also seems to reign, we have long ago demonstrated in each particular field the inherent necessity and regularity that asserts itself in this chance." (Engels, "The Origin of the Family, Private Property and the State," Karl Marx and Frederick Engels, *Selected Works* [Moscow: Foreign Languages Publishing House, 1955], 322. See also *Dialectics of Nature*, 38, 223; *Correspondence*, 484, 518). This doctrine was applied to economics: "The mutual confluence and intertwining of the reproduction or circulation processes of different capitals is on the one hand necessitated by the division of labour, and on the other is accidental. . . ." *Theories of Surplus Value*, 385. See also *Capital*, III, 220.

⁵⁸*Capital*, I, 391.

⁵⁹*Correspondence*, 247.

⁶¹*Ibid.*, III, 140.

⁶³*The Poverty of Philosophy*, 68.

⁶⁰*Capital*, II, 362.

⁶²*Ibid.*, II, 86.

⁶⁴*Capital*, II, 578.

attendant price fluctuations—had originated in Engels’ “Outlines of a Critique of Political Economy”: “Supply . . . is either too big or too small, never corresponding to demand; because in this unconscious condition of mankind no one knows how big supply or demand is.”⁶⁵

This is not aggregate supply and demand which are in imbalance, but rather the relations of supply and demand for the respective products of the various sectors: “The perpetual fluctuation of prices . . . daily and hourly changes the value-relationship of all things to one another.”⁶⁶ In this “state of perpetual fluctuation perpetually unresolved,” supply and demand “always strive to complement each other and therefore never do so.”⁶⁷ This was a direct forerunner of Marx’s later argument:

. . . all equalisations are *accidental*, and although the proportionate use of capitals in the various spheres is equalised by a continuous process, nevertheless the continuity of this process itself equally presupposes the constant disproportion, which it has continuously, often violently, to even out.⁶⁸

In Engels, as later in Marx, business cycles were seen as a perverse confirmation of the price allocation mechanism of traditional economic theory:

This law with its constant balancing . . . seems to the economist marvellous. It is his chief glory—he cannot see enough of it, and considers it in all its possible and impossible applications. . . . Of course, these trade crises confirm the law, confirm it exhaustively—but in a manner different from that which the economist would have us believe to be the case. What are we to think of a law which can only assert itself through periodic crises?⁶⁹

The same idea appeared in Marx a few years later:

The economists say that the *average price* of commodities is equal to the cost of production; that this is a *law*. The anarchical movement in which rise is compensated by fall and fall by rise, is regarded by them as chance. With just as much right one could regard the fluctuations as the law and the determination by the cost of production as chance. . . . it is solely these fluctuations, which, looked at more closely, bring with them the most fearful devastations and, like earthquakes, cause bourgeois society to tremble to its foundations.⁷⁰

Later in *Capital* Marx was in fact to treat the price fluctuations as a law governing the allocation of resources—“the law of value”⁷¹—thus linking price theory and business cycle theory as Engels had done.

The relationship of crises to the end of capitalism was also first stated by Engels in the same article:

. . . as long as you continue to produce in the present unconscious, thoughtless manner, at the mercy of chance—for so long trade crises will remain; and each

⁶⁵Reprinted as an appendix in Marx, *Economic and Philosophic Manuscripts of 1844*, 195.

⁶⁶*Ibid.*, 196.

⁶⁷*Ibid.*, 195.

⁶⁸*Theories of Surplus Value*, 368.

⁶⁹Engels, “*Outlines of a Critique of Political Economy*,” 195.

⁷⁰*Wage Labour and Capital*, Karl Marx and Frederick Engels, *Selected Works* (Moscow: Foreign Languages Publishing House, 1955), vol. I, p. 87.

⁷¹*Capital*, I, 391; III, 745, 1026; *Correspondence*, 246; Engels’ “Preface” to *The Poverty of Philosophy*, 18. For essentially the same analysis without specific use of the term “law of value,” see *Capital*, I, 114–5; III, 220–1.

successive crisis is bound to become more universal and therefore worse than the preceding one . . . finally causing a social revolution. . . .⁷²

Here as in the later writings of Marx, it was not argued that an economic crisis would itself destroy capitalism, but that it would provoke men to do so. Depressions would be ever-widening rather than ever-deepening as popular interpretation has suggested—a point reinforced by another work of Engels' in this period, in which the international spread of crises over time was postulated.⁷³

That all of this was not a mere early aberration of Engels' was indicated by Marx's letter to him in 1868 discussing some points to be elaborated in later volumes of *Capital*. Marx observed that as long as the regulation of production "is accomplished not by the direct and conscious control of society . . . but by the movement of commodity prices, things remain as you have already quite aptly described them in the *Deutsch-Französische-Jahrbucher*."⁷⁴

B. MONEY AND CREDIT

Marx recognized that classical economics had admitted "the glut of the market for particular commodities," that it had denied only "the *simultaneity* of this phenomenon for all spheres of production, and hence general overproduction."⁷⁵ For Marx money and credit were the mechanisms which turned partial overproduction into general overproduction. They were not, however, causes of crises—"both make their appearance long *before* capitalist production, without crises occurring"⁷⁶—but rather mechanisms which turn the inherent disproportionalities between sectors of the capitalist economy into a general imbalance between aggregate output and aggregate demand.

While for classical economics money was simply a veil concealing, but not essentially changing, the barter of one commodity for another, in Marx it played a more important role. Through money the barter of one commodity for another "falls into two acts which are independent of each other and separate in space and time."⁷⁷ These separate acts "imply the possibility, and no more than the possibility of crisis."⁷⁸ However, Marx did not "seek to explain crisis by these simple *possibilities* of crisis"⁷⁹—a method he criticized in John Stuart Mill. What was important was to show why crises developed "from possibility into actuality."⁸⁰ In short, Marx rejected a purely monetary theory of depressions, though he acknowledged that particular downturns might originate in purely monetary phenomena. He distinguished monetary crises as "phases of industrial and commercial crises"⁸¹ from a purely monetary crisis "as an independent phenomenon."⁸² He admitted such crises empirically but did not deal with them theoretically.

⁷²"Outlines of a Critique of Political Economy," 196.

⁷³*The Condition of the Working Class in England* (London, 1952), 82.

⁷⁴*Correspondence*, 232.

⁷⁵*Theories of Surplus Value*, 408.

⁷⁷*Ibid.*, 381.

⁷⁹*Theories of Surplus Value*, 379.

⁸¹*Capital*, I, 155.

⁷⁶*Ibid.*, 387.

⁷⁸*Capital*, I, 128.

⁸⁰*Ibid.*, 390.

⁸²*Ibid.*, 155n.

Overproduction in particular sectors generate financial panic in these sectors when money receipts are insufficient to meet fixed contractual obligations when they are due.⁸³ The credit system turns defaults in particular sectors into a general contraction of credit. When there are “debts due to A from B, to B from C, to C from A, and so,”⁸⁴—in short, “an ever-lengthening chain of payments”⁸⁵ or “mutual claims and obligations”⁸⁶—then a monetary crisis develops “from the non-fulfilment of a whole series of payments which depend on the sale of these particular commodities within this particular period of time.”⁸⁷ A general financial panic ensues: “. . . in periods of crisis when credit collapses completely . . . nothing goes any more but cash money.”⁸⁸ With the shrinkage of credit, aggregate money demand becomes insufficient: “At a given moment the supply of all commodities may be greater than the demand for all commodities, because the demand for the general commodity, money, exchange value, is greater than the demand for all particular commodities. . . .”⁸⁹ Marx was aware that the insufficiency of demand was an insufficiency only at given prices: “The excess of commodities is always relative, that is, it is an excess at certain prices. The prices at which the commodities are then absorbed are ruinous for the producer or merchant.”⁹⁰ The lower prices are ruinous because the whole price structure cannot deflate smoothly: “The fixed charges . . . remain the same, and in part cannot be paid.”⁹¹ Even commodities which were not among those which had been overproduced “are now suddenly in *relative* overproduction, because the means to buy them, and therewith the demand for them, have contracted.”⁹² Thus “in times of general overproduction the overproduction in some spheres is always the *result*, the *consequence*, of overproduction in the leading articles of commerce. . . .”⁹³ Against those who tried “to argue away the possibility of a general glut,” Marx declared: “For a crisis (and therefore also overproduction) to be general, it is sufficient for it to grip the principal articles of trade.”⁹⁴

C. PERIODICITY

Marx believed that business cycles had a regular period, which was due to a regular replacement life of capital goods. He assumed for illustrative purposes that capital goods lasted ten years on the average, but did not—contrary to popular belief—insist that in fact this was the correct period.⁹⁵ Marx assumed

⁸³*Ibid.*, 154, 155; *Theories of Surplus Value*, 386, 389.

⁸⁴*Capital*, I, 154.

⁸⁵*Ibid.*, 155.

⁸⁶*Theories of Surplus Value*, 386.

⁸⁷*Ibid.*, 389.

⁸⁸*Capital*, III, 543, 602; *Critique of Political Economy* (Chicago, 1904), 198.

⁸⁹*Theories of Surplus Value*, 392.

⁹⁰*Ibid.*, 393.

⁹¹*Ibid.*, 390–1.

⁹²*Ibid.*, 401.

⁹³*Ibid.*, 408, 393.

⁹⁴*Ibid.*, 393.

⁹⁵“One may assume that this life-cycle, in the essential branches of great industry, now averages ten years. However, it is not a question of any one definite number here.” *Capital*, II, 211.

that crises themselves spurred investment—presumably in their aftermath—so that much capital in sectors throughout the economy would date from the same time, thus providing “a new material basis for the next cycle. . . .”⁹⁶ However, this part of his theory was left in a very sketchy state—perhaps because periodicity was not essential to his over-all picture of the end of capitalism. Engels later argued, after Marx's death, that periodic depressions had given way to a chronic stagnation.⁹⁷ However, this view, like their earlier belief in periodicity, was not explored to any considerable extent.

III / The falling rate of profit

It is important to note that Marx referred to the law of the *tendency*—he called it “merely” a “tendency”⁹⁸—of the falling rate of profit. After explaining the tendency towards declining profit rates because of a rising capital : labour ratio with a given profit : wages ratio (a truistic conclusion *not* dependent on a labour theory of value), Marx proceeded to elaborate the “counteracting causes” which in most cases amounted to increasing the profit : wages ratio by one means or another.⁹⁹

Although Marx seemed to suppose that the conflicting forces he described would produce a declining rate of profit as a resultant, this was not a logical necessity from his theory, nor did he claim that it was. His purpose in elaborating this doctrine must to some extent be guessed at, but it does not seem to be an insoluble riddle. The *actual* movement of the rate of profit would be relatively unimportant in Marx's over-all politico-economic vision, while the *tendency* was very significant. The primary method of preventing a declining profit rate was by progressively increasing the rate of surplus value—the “exploitation” of the workers. It was precisely this increasing exploitation of the workers which was to intensify the class struggle and hasten revolution. In this light, whether or to what extent it proved successful in preventing a falling profit rate from materializing seems secondary.

Since increasing exploitation of the workers in Marxian terms did not imply declining real wages, Marx's implicit assumption seemed to be that workers looked upon wages primarily as a relative share as he and Ricardo did.¹⁰⁰ This assumption also underlay his doctrine of the “increasing misery” of the proletariat, and was a key weakness in this doctrine as a theory of revolution.

It has sometimes been claimed that the falling rate of profit doctrine and the doctrine of the increasing misery of the workers are mutually incompatible,

⁹⁶*Ibid.*

⁹⁷*Capital*, III, 574n–5n; Engels' “Preface” to *The Poverty of Philosophy*, 20n.

⁹⁸*Capital*, III, 272. Similarly, Marx said that “the same rate of surplus-value, with the same degree of labor exploitation, *would* express itself in a falling rate of profit . . .” *Ibid.*, 248 (emphasis added).

⁹⁹*Ibid.*, III, chap. xiv, *passim*.

¹⁰⁰Ricardo viewed wages as a relative share only as an analytical device. Marx attributed to Ricardo a social philosophy in which the relative position of the classes was more important than their absolute living standards (*Theories of Surplus Value*, 320). In fact, however, Ricardo's social philosophy made the absolute standard of living more important (*The Works and Correspondence of David Ricardo*), II, 249–50. See also Thomas Sowell, “Marx's ‘Increasing Misery’ Doctrine,” *American Economic Review*, March 1960, 111–20.

since the relative shares of property and wage income cannot simultaneously decline.¹⁰¹ It should be noted, however, that the former (even as a doctrine of a materialized tendency) is a doctrine of a falling rate of *net* profit, so that the capitalists' share of gross national product need not decline. The rising capital-intensity of production ("organic composition of capital") means that a greater proportion of the capitalist's gross revenue would go for replacement and expansion of capital.¹⁰²

Marx's tendency of the falling rate of profit has often been causally linked to his business cycle theory by interpreters. But far from attempting to make secularly declining profits a cause of cyclical depression, Marx was at pains to point out the distinction between a long-run falling profit rate and "temporary" declines for other reasons.¹⁰³ The only causal link between economic crises and the secular profit fall was that the cheapening of capital which accompanies a depression was considered an offsetting factor retarding the long-run decline in profit rates.¹⁰⁴

In classical economics the theory of the falling rate of profit led to a "stationary state," which may explain efforts to make Marx's theory end in a "breakdown" of capitalism. But if Marx had meant this, nothing would have been easier than to have said so somewhere in the three volumes of *Capital*, the three additional volumes of *Theories of Surplus Value*, or his voluminous correspondence with Engels—particularly since he discussed the classical theory of the subject.¹⁰⁵

The consequences of the tendency of the falling rate of profit were much milder in Marx. As a tendency it intensified exploitation and hence presumably the class struggle. As a materialized actuality it hastened the concentration of capital,¹⁰⁶ encouraged speculation,¹⁰⁷ and promoted foreign investment.¹⁰⁸ Quite possibly Marx did not expect capitalism to last long enough to reach a stationary state.

IV / Value

Marx's doctrine of value in *Capital* met two major disasters which continue to obscure his meaning a century later: (1) the heavily Hegelian exposition, which Engels repeatedly and vainly warned against,¹⁰⁹ and (2) the twenty-seven year delay between publication of volume I (where value was intro-

¹⁰¹Joan Robinson, *An Essay on Marxian Economics* (London, 1957), 36; Samuelson, "Wages and Interest," 892–5.

¹⁰²"If a falling rate of profit goes hand in hand with an increase in the mass of profits, as we have shown, then a larger portion of the annual product of labor is appropriated by the capitalist under the name of capital (as a substitute for consumed capital) and a relatively smaller portion under the name of profit." *Capital*, III, 288.

¹⁰³*Ibid.*, 249.

¹⁰⁴*Ibid.*, 292–3.

¹⁰⁵*Correspondence*, 244.

¹⁰⁶*Capital*, III, 283.

¹⁰⁷*Ibid.*, 294.

¹⁰⁸*Ibid.*, 278, 300.

¹⁰⁹*Correspondence*, 220–1; Mins, ed., *Engels on Capital*, 125. Similarly in reviewing an earlier abstract of Marx's *Critique of Political Economy*, Engels had described it as "a very abstract abstract indeed," and expressed the hope that the "abstract dialectical tone" would disappear as the work developed (*Correspondence*, 110). Engels was much more cognizant than Marx of the difficulties presented by the Hegelian presentation. Of one of his own early works he said: "The semi-Hegelian language of a good many passages of my old

duced) and volume III (where its relationship to price was elaborated), which allowed time for his followers and opponents—notably the rising marginal utility school—to harden their positions on a “labour theory of value” which did not exist.

Here, as in other cases, Marx's argument is not fundamentally difficult in itself, though there are great problems in trying to extricate it from its Hegelian entanglements and interpretative overgrowths which have emerged over the past century from attempts to force his theories into the pattern of traditional economics.

Marx's analysis begins with the basic fact that in a complex economy men “work for one another”¹¹⁰ and when they *appear* on the surface to exchange their products they are in *essence* distributing their labour (including capital as past labour). Although this Hegelian conception was not logically necessary for Marxian economics, it is important for understanding the argument as Marx chose to present it in *Capital*.

“Exchange-value” (price) as the relationship between commodities was repeatedly referred to as an “appearance,”¹¹¹ a “phenomenal form,”¹¹² part of the “surface phenomena,”¹¹³ etc., connected with but different from the underlying reality of “value.”¹¹⁴ Value and surplus value were an “invisible and unknown essence” rather than “phenomena which show themselves on the surface.”¹¹⁵ The opening chapter of the first volume of *Capital* criticized classical economics for not understanding “the hidden relations existing between value and its form, exchange-value,”¹¹⁶ for confusing “the form of value with value itself,”¹¹⁷ and for failing to discover specifically how “value becomes exchange-value.”¹¹⁸ Although “value” or labour time “ultimately” regulates prices, “average prices do not directly coincide with the values of commodities, as Adam Smith, Ricardo and others believe.”¹¹⁹

In his *Theories of Surplus Value* (written before the first volume of *Capital*, though published later) Marx repeatedly made the same argument against Ricardo which Böhm-Bawerk was later to make against him, that profit equalization among industries with different capital-labour ratios was incompatible with prices being proportional to labour-determined “values.”¹²⁰ It was

book is not only untranslatable but has lost the greater part of its meaning even in German.” Karl Marx and Frederick Engels, *Letters to Americans*, transl. Leonard E. Mins (New York: International Publishers, 1953), 151.

¹¹⁰*Capital*, I, 82. Like most doctrines in *Capital*, this appeared also in Marx's earlier writings: “In principle there is no exchange of products—but there is the exchange of the labour which co-operated in production.” *The Poverty of Philosophy*, 78.

¹¹¹*Capital*, I, 95n.

¹¹²*Ibid.*, 43; *Theories of Surplus Value*, 203, 261.

¹¹³*Theories of Surplus Value*, 261.

¹¹⁴“... exchange value, generally, is only the mode of expression, the phenomenal form, of something contained in it, yet distinguishable from it.” *Capital*, I, 43.

¹¹⁵*Capital*, III, 56, refers to surplus value; value was also considered “invisible” (*ibid.*, I, 107). Marx referred to “surplus value in general as distinct from its determinate forms” which were “determined by quite different laws.” *Theories of Surplus Values*, 133.

¹¹⁶*Capital*, I, 95n.

¹¹⁷*Ibid.*, 57n.

¹¹⁸*Ibid.*, 82n.

¹¹⁹*Ibid.*, 185n.

¹²⁰“... if profits as a percentage of capital are to be equal, for example in a period of one year, so that capitals of equal size yield equal profits in the same period of time, then the prices of commodities must be different from their values.” *Theories of Surplus Value*, 231;

not a question of temporary “accidental deviations of market prices from prices [costs] of production” which were the long-run equilibrium prices, but rather “the constant deviations of market prices, in so far as these correspond to prices of production, from the real values of commodities. . . .”¹²¹ Similarly he criticized Ricardo for directly identifying surplus value—the labourer’s work beyond his own maintenance requirements—with profits (the justice of these criticisms is irrelevant here).¹²²

These were not isolated differences on particular theories, but fundamental methodological differences. In contrast to the usual criticism of Ricardo as too abstract, Marx claimed that “the opposite accusation would be justified—i.e., lack of the power to abstract,”¹²³ at least to do so systematically and consistently. According to Marx, Ricardo “skips necessary intermediate links and tries to establish *direct* proof of economic categories with each other.”¹²⁴ Classical economics in general was accused of making “a regular hash” of concepts belonging on different levels of abstraction.¹²⁵ Marx blamed Adam Smith’s inconsistent theories of value on his unconsciously operating on different levels of abstraction, alternately “penetrating to the inner relations” and then dealing with “the external phenomena . . . in their outward manifestation. . . .”¹²⁶

Marx insisted that the method of systematic abstraction and successive approximation was the essence of scientific procedure. He said: “. . . all science would be superfluous, if the appearance, the form and the nature of things were wholly identical.”¹²⁷ On the first page of his *Critique of Political Economy* he warned that there would be no “anticipation of results” which depended upon later stages of the argument. In a later discussion of “the method of political economy,” Marx argued that while it “seems to be the correct procedure to commence with the real and concrete aspect of conditions as they are,” yet “on closer consideration it proves to be wrong.”¹²⁸ Thus, though he found “error” in Hegel, he nevertheless approved the Hegelian “method of advancing from the abstract to the concrete. . . .”¹²⁹

Similarly, in a preface to a French edition of *Capital* Marx acknowledged that his “method of analysis” might make the opening chapters on value “arduous” for those who were “impatient to come to a conclusion.”¹³⁰ Only in the third volume of *Capital* did the analysis “approach step by step”

see also 212, 214, 221, 224, 232, 249, 250, 282; *Correspondence*, 243. Cf. Eugen von Böhm-Bawerk, *Karl Marx and the Close of His System* (New York, 1898), 61 and chap. III *passim*.

¹²¹*Theories of Surplus Value*, 256. Cf. Böhm-Bawerk, *Karl Marx and the Close of His System*, 76.

¹²²“We can see by the example of the Ricardian school that it is a mistake to attempt a development of the laws of the rate of profit directly out of the laws of the rate of surplus-value, or vice-versa.” *Capital*, III, 59; see also *Theories of Surplus Value*, 231, 282, 329, 342.

¹²³*Theories of Surplus Value*, 231.

¹²⁴*Ibid.*, 202.

¹²⁵*Theories of Surplus Value*, 202.

¹²⁶*Critique of Political Economy*, 292.

¹²⁷*Capital*, III, 951.

¹²⁸*Ibid.*, 293–4.

¹³⁰(Moscow: Foreign Languages Publishing House, no date), 21. All other references herein are to the Kerr edition.

economic entities as they appear “in the ordinary consciousness of the human agencies in this process.”¹³¹ Here, as he informed Engels, he would consider “the *forms of appearance* which serve as the *starting point* in the vulgar conception.”¹³² Vulgar economics was defined by Marx as that which “deals with appearances only”¹³³—prices, profit and other tangible entities—without consideration of the underlying human relationships analysed by classical economics.

Marx was conscious (and proud) of pioneering a new method in economics.¹³⁴ When Engels pointed out to him how his discussion of value and surplus-value in volume I was likely to be misunderstood by people who were “not accustomed to this sort of abstract thought,”¹³⁵ Marx replied:

... the *conversion of surplus value into profit* . . . presupposes a previous account of the *process of circulation of capital*, since the turnover of capital, etc., plays a part here. Hence this matter can be set forth only in the third book. . . . Here it will be shown whence the *way of thinking* of the philistine and the vulgar economist derives, namely, from the fact that only the immediate form in which relationships appear is always reflected in their brain, and not their *inner connections*. If the latter were the case, moreover, what would be the need for a *science* at all?

If I were to *silence* all such objections *in advance*, I should ruin the whole dialectical method of development. On the contrary, this method has the advantage of continually *setting traps* for these fellows which provoke them to untimely demonstrations of their asininity.¹³⁶

Marxian value, as will be seen below, was a matter of definition rather than theory. However, it facilitated discussion of substantive theories involving the dynamics of class income distribution and the nature and pathology of resource allocation, including business cycles. The Marxian “law of value” was a theory of the process by which the economy allocates its working time to the respective products composing its total output.¹³⁷ The “law of value . . . ultimately determines how much of its disposable working time society can expend on each particular class of commodities.”¹³⁸ The “law of value” thus serves to “maintain the social equilibrium of production in the turmoil of its accidental fluctuations.”¹³⁹ If there is optimal, equilibrium allocation of labour, “then the products of the various groups are sold at their values . . . or at prices which are modifications of their values . . . due to general laws,”¹⁴⁰ i.e., profit equalization. This was “the law of value enforcing itself, not with reference to individual commodities or articles, but to the total products of

¹³¹*Capital*, III, 38.

¹³²*Correspondence*, 245 (emphasis in the original here as throughout, unless specifically noted to the contrary).

¹³³*Capital*, I, 93n.

¹³⁴*Correspondence*, 232.

¹³⁵*Ibid.*, 220.

¹³⁶*Engels on Capital*, 126–7. It is difficult to escape the suspicion that Marx was overly concerned with “setting traps,” particularly in view of the fact that some of the most important clues as to what he was about—including his stark repudiation of Smith and Ricardo on the labour theory of value—were contained in *footnotes* in the first volume of *Capital*. See notes 116–119 above.

¹³⁷*Capital*, III, 220–1.

¹³⁸*Ibid.*, I, 391.

¹³⁹*Ibid.*, III, 1026.

¹⁴⁰*Ibid.*, 745.

the particular social spheres of production made independent by division of labour.”¹⁴¹ In other words, the main point was not to explain the structure of prices in static equilibrium but rather to explain the dynamic process by which these prices came about, especially since this process produced business cycles as a by-product.

Marx never claimed to have a labour theory of value. Indeed, he charged “bad faith” in this regard to a critic who “attempts . . . to burden me with all Ricardo’s limitations.”¹⁴² The opening chapter of *Capital* referred to “Value as defined.”¹⁴³ This was no isolated verbal slip; even earlier (in 1858) while writing the *Critique of Political Economy*, Marx had informed Engels of the “definition of value” which he intended to use in that book,¹⁴⁴ and similar language appeared in Marx’s later reactions to criticism of the first volume of *Capital*. For example:

... as for Duhring’s modest objections to the definition of value, he will be astonished when he sees in Volume II how little the determination of value ‘directly’ counts for in bourgeois society. No form of society can indeed prevent the fact that, one way or another, the working time at the disposal of society regulates production. So long, however, as this regulation is accomplished not by the direct and conscious control of society over its working time—which is only possible under common ownership—but by the movement of commodity prices, things remain as you have already quite aptly described them in the *Deutsch-Französische-Jahrbucher*.¹⁴⁵

The “second volume” referred to was intended to include Books II and III, each of which was in fact posthumously published as separate volumes.¹⁴⁶ In another comment on his critics, Marx again indicated the definitional nature of “value”:

The nonsense about the necessity of proving the concept of value arises from complete ignorance both of the subject dealt with and of the method of science. Every child knows that a country which ceased to work, I will not say for a year, but for a few weeks, would die. Every child knows too that the mass of products corresponding to the different needs require different and quantitatively determined masses of the total labour of society . . .

The science consists precisely in working out *how* the law of value operates. So that if one wanted at the very beginning to “explain” all the phenomena which apparently contradict that law, one would have to give the science *before* the science. It is precisely Ricardo’s mistake . . . in his first chapter on value . . .

The vulgar economist has not the faintest idea that the actual everyday exchange relations need not be directly identical with the magnitudes of value. The point of bourgeois society consists precisely in this, that *a priori* there is no conscious, social regulation of production. . . . And then the vulgar economist thinks he has made a great discovery when, as against the disclosures of the inner connection, he proudly claims that in appearance things look different. In fact, he is boasting that he holds fast to the appearance and takes it for the last word. Why then, any science at all?¹⁴⁷

¹⁴¹*Ibid.*

¹⁴³*Capital*, I, 45.

¹⁴⁵*Ibid.*, 232.

¹⁴⁶*Engels on Capital*, 127; *Correspondence*, 219. Additional material prepared by Marx and discovered by Engels after his death were enough to “swell the 2nd volume into a 2nd and a 3rd.” Engels, Lafargue, *Correspondence*, I, 178.

¹⁴⁷*Correspondence*, 246–7.

¹⁴²*Correspondence*, 234.

¹⁴⁴*Correspondence*, 106.

Marx's disavowal of any attempt to "prove" his definition of value was in sharp contrast to numerous critics who have claimed that he had vainly attempted a "dialectical proof" in the opening chapter of *Capital*.¹⁴⁸ To a contemporary critic who had argued along similar lines, Engels replied that his "total lack of understanding as to the nature of dialectics is shown by the very fact that he regards it as a mere instrument through which things can be proved. . . ."¹⁴⁹ In Marx there were no dialectical forces, dialectical theories, or dialectical proofs; there was only a dialectical method or approach—looking at dynamic relationships rather than static conditions, seeking the element of "law" or necessity in apparently random or accidental phenomena, and reasoning systematically through successive approximations. The discussion in the opening chapter of *Capital* was not an exercise in logic but in popularization. Marx was concerned, as he told Engels, that this material should be at least "bearably popular"¹⁵⁰ or even "specially popularised for the philistine;"¹⁵¹ he was painfully aware that his earlier presentation of the same subject in the *Critique of Political Economy* had been "in a marked degree non-popular."¹⁵² The utter failure of Marx's attempt at popularization should not obscure the fact that this was nevertheless what he was attempting.

Marxian value was "socially necessary labour time" in two senses: (1) the technologically required time to produce a given article, and (2) the aggregate amount of time required to produce the total quantity of the article demanded.¹⁵³ While "concrete"¹⁵⁴ or "individual"¹⁵⁵ labour, consisting of the exercise of a particular skill or vocation by an individual worker, was tangible, the "socially necessary labour" performed by society through the instrumentality of these individuals was not. It could not be measured *ex ante* but only determined *ex post* by the market.¹⁵⁶ It is the market—"the act of exchange"—which evaluates the concrete "labour of the individual" as "part

¹⁴⁸ ". . . for his system he needed a formal proof. . . . So he turned to dialectical speculation. . . ." Böhm-Bawerk, *Karl Marx and the Close of His System*, 151–2. Böhm-Bawerk made the claim, often echoed since, that Marx had attempted "a stringent syllogistic conclusion allowing of no exception" (*ibid.*, 63), that Marx was making "a logical proof, a dialectical deduction" (*ibid.*, 131). This "proof" continues in some unspecified way to be linked to dialectics or Hegelianism. Cf. Donald F. Gordon, "What Was the Labor Theory of Value?" *American Economic Review*, May 1959, 471.

¹⁴⁹*Anti-Dühring*, 147.

¹⁵⁰*Correspondence*, 157.

¹⁵¹*Ibid.*, 220n.

¹⁵²*Letters to Dr. Kugelmann*, 24. Despite this, Marx repeatedly dismissed suggestions that his writing was in general difficult to understand (e.g., *ibid.*, 75) and entertained the idea of writing an account of Hegelian philosophy which would be understandable by the "ordinary" person. *Correspondence*, 102.

¹⁵³ ". . . suppose that every piece of linen in the market contains no more labour-time than is socially necessary. In spite of this, all these pieces taken as a whole, may have had superfluous labour-time spent upon them." *Capital*, I, 120; ". . . it is a condition for the sale of commodities at their value that only the socially necessary labour time is contained in them . . . only the labour time which is required for the satisfaction of the social need (the demand)." *Theories of Surplus Value*, 398–9. See also Engels' "Preface" to *The Poverty of Philosophy*, 15.

¹⁵⁴*Capital*, I, 54, 58, 67; this contrasted with "abstract" labour, the labour of society. *Ibid.*, 67; *Critique of Political Economy*, 23, 29, 33, 102.

¹⁵⁵This phrasing was used in *Critique of Political Economy*, 27, 29, 43, 45.

¹⁵⁶*Capital*, I, 84; *Critique of Political Economy*, 47, 63–4.

of the labour of society"¹⁵⁷—accepting it only at a discount if too much was expended, either technologically or in terms of demand, and at a premium if insufficient labour was devoted to a particular sector.¹⁵⁸ Because the individual or concrete labour actually performed need not coincide with the socially necessary labour which represents value, Marx and Engels argued that (1) disproportionality crises were inherent in capitalism,¹⁵⁹ and that (2) prices could not be fixed according to labour time under socialism as some other socialists wished.¹⁶⁰

Although Marx's economic theories were presented in terms of labour "value," they could be restated in other terms without distorting their meaning, just as the Keynesian "labour unit" (which has the same meaning) is not essential to that system. Marx declared that "even if there were no chapter on value" in *Capital*, the relationships he demonstrated would stand anyway.¹⁶¹ While Marx's actual conclusions stand or fall independently of his value concept, this has been obscured by the tendency to attribute to Marx the views of the Ricardian socialists. For example, the idea that workers should receive the full "value" of their product was scorned by Marx as "the utopian interpretation of Ricardo's theory,"¹⁶² and Engels pointed out that Marx "never based his communist demands upon this," which was "simply an application of morality to economics."¹⁶³ Similarly, those who wanted labour values to determine prices under socialism were told that they would have to "prove that the *time* needed to create a commodity indicates exactly the degree of its utility and marks its proportional relation to the demand. . . ."¹⁶⁴ Marxian "socially necessary labour" could logically have been translated into the

¹⁵⁷*Capital*, I, 84. "... overproduction and many other features of industrial anarchy have their explanation in this mode of evaluation." *The Poverty of Philosophy*, 66.

¹⁵⁸*Capital*, III, 221.

¹⁵⁹In criticizing Ricardo's adherence to Say's Law, Marx said that Ricardo "forgets" that "the individual labour, through its alienation, must present itself as abstract, general, social labour." *Theories of Surplus Value*, 381. Similarly Engels observed: "The fact that value is the expression of the social labour contained in the individual products itself creates the possibility of a difference arising between this social labour and the individual labour contained in these products." This led to, among other things, "crises." *Anti-Dühring*, 338.

¹⁶⁰"Only through the undervaluation or overvaluation of products is it forcibly brought home to the individual commodity producers what things and what quantity of them society requires or does not require. But it is just this sole regulator that the utopia in which Rodbertus also shares would abolish. . . . we then ask what guarantee we have that the necessary quantity and not more of each product will be produced, that we shall not go hungry in regard to corn and meat while we are choked in beet sugar and drowned in potato spirit, that we shall not lack trousers to cover our nakedness while trouser buttons flood us in millions. . . ." Engels' "Preface" to *The Poverty of Philosophy*, 19. See also *Critique of Political Economy*, 103–6; *The Poverty of Philosophy*, chap. I. Contrast this with the typical interpretation of Joan Robinson: "... Marx believed that, under socialism, the labour theory of value would come into its own." *An Essay on Marxian Economics*, 23.

¹⁶¹*Correspondence*, 246.

¹⁶²*Ibid.*, 172; *The Poverty of Philosophy*, 49. "... in no conceivable state of society can the worker receive for consumption the entire value of his product." Engels' "Preface" to *ibid.*, 21. "... deductions from the 'undiminished proceeds of labour' are an economic necessity and their magnitude is . . . in no way calculable by equity." Karl Marx, *Critique of the Gotha Programme*, in Marx and Engels, *Selected Works*, II, 22.

¹⁶³"Preface" to *The Poverty of Philosophy*, 11.

¹⁶⁴*The Poverty of Philosophy*, 60–1.

language of the marginal utility theory had Marx had the flexibility, the time, and the energy to do so.

Even Marxian "exploitation" does not depend on the labour value definition, although obviously its exposition is facilitated and its plausibility enhanced by this phraseology. However, since "surplus value" is simply the difference between wages and the worker's average product, it would remain unchanged under a marginal productivity theory of wages in a perfectly competitive market. The crucial assumption on which Marx's results depend is that capital is itself a product of labour rather than an independent source of output or a contribution of its legal owner.¹⁶⁵ Since Marx regarded economics as a study of the relations among men rather than the relations among things, the point was that the Marxian capitalist was left in a *personally* functionless role similar to that of the Ricardian landlord who grew richer in his sleep. It was no more necessary for Marx to argue that capital as such was unproductive than it was for Ricardo to argue that land was unproductive. Indeed, it would have been a complete contradiction for Marx to have argued that the capitalistic means of production were worthless and then that the key to social construction lay precisely in the collective ownership of these means of production.

V / Summary and conclusions

Marx's *Capital* presented a picture in which "men work for each other" but in a state of neo-Hegelian "alienation" in which they perceive their own creations confronting and controlling them: the worker creates capital, but the capital employs him (or disemploys him) according to its necessities rather than his.¹⁶⁶ They do not see their own mutual interchanges of labour, but only their products' mutual relations—"the fetishism of commodities"—in which the underlying human relations expressed by value and surplus value are reflected and distorted as "exchange-value" (price) and profit.¹⁶⁷ They see their own individual performances of particular kinds of individual "concrete" labour, but do not see that society as a whole must perform labour in general in the

¹⁶⁵*Capital*, I, 637–8; *Theories of Surplus Value*, 360; *Economic and Philosophic Manuscripts of 1844*, 23–4.

¹⁶⁶*Capital*, III, 230; *Economic and Philosophic Manuscripts of 1844*, 23–4. "The alienation of the worker in his product means not only that his labour becomes an object, an *external* existence, but that it exists *outside him*, independently, as something alien to him, and that it becomes a power on its own confronting him; it means that the life which he has conferred on the object confronts him as something hostile and alien." *Ibid.*, 70. Alienation is not merely an objective situation but also a subjective state of mind induced by it in which the "*human mind stands bewildered in the presence of its own creation*," which it does not recognize as such. Engels, *The Origin of the Family, Private Property and the State*, reprinted in Marx and Engels, *Selected Works*, II, 325. This concept recurred throughout Marx's writings, though the specific Hegelian term "alienation" was no longer used after the 1840's in most cases: *ibid.*, 323; *The German Ideology*, pp. 22–3; *Theories of Surplus Value*, 317; *Anti-Dühring*, 300, 345. See also Marcuse, *Reason and Revolution*, 273–87.

¹⁶⁷"... a definite social relation between men... assumes, in their eyes, the fantastic form of a relation between things. In order, therefore, to find an analogy, we must have recourse to the mist-enveloped regions of the religious world. In that world the productions of the

proper amounts in the respective sectors—"abstract, socially necessary labour"—and that this *ex post* necessity of interdependence will assert itself despite *ex ante* independence and the accidental relationship of individual decisions to one another. *Capital* was designed to "lay bare" these human relationships, external necessities, and the secular tendencies to which they lead.¹⁶⁸

When the inherent disproportionalities of capitalism reach sufficient magnitudes, price fluctuations become great enough to precipitate scrambles for liquidity in sectors threatened with bankruptcies; this in turn leads to general monetary contraction and depression. A growing capital : labour ratio in the economy means that the workers' share of gross output (not national income) declines over time, increasing class tensions which eventually erupt into revolution triggered by one of the recurrent depressions which cover increasingly larger shares of the economy as industrial capitalism spreads its dominance over time.

This was the vision which Marx and Engels developed in the early 1840's and which remained substantially unchanged throughout the rest of their lives, despite their recurrent complaints in later years that events—and especially the workers—were not following this pattern.¹⁶⁹

A critique of the Marxian system is beyond the scope of this paper. What may be more relevant in a centenary retrospect is the question whether *Capital* represented any significant advance in economic thinking. In some ways it was the last salvo of classical economics. Yet Marx was by no means "a minor post-Ricardian"¹⁷⁰—or a Ricardian at all (though the Ricardian *theory* of value was obviously the basis of Marx's *definition* of value).¹⁷¹ There were a number of significant advances beyond the economic thinking of its time which Marx's *Capital* originated, though it did not "introduce" them into the mainstream of economics because economics largely ignored Marx

human brain appear as independent beings endowed with life, and entering into relation both with one another and the human race. So it is in the world of commodities with the products of men's hands. This I call the Fetishism which attaches itself to the products of labour, so soon as they are produced as commodities," i.e., products for the market. *Capital*, I, 83. Value involves "a relationship between persons expressed as a relation between things." (*Ibid.*, 85n). The appearance of the value is the exchange-value or price. According to Engels, "economics deals not with things but with relations between persons, and, in the last resort, between classes; these relations are, however, always *attached to things* and *appear as things*." Frederick Engels, review of "Karl Marx, *A Contribution to the Critique of Political Economy*," Marx and Engels, *Selected Works*, vol. I, p. 374. See also *Critique of Political Economy*, 30–1, 51–2; *Engels on Capital*, 45.

¹⁶⁸*Capital*, I, 14; III, 62.

¹⁶⁹*Correspondence*, 92, 213, 278–9, 289, 420–1, 461, 463–4.

¹⁷⁰Samuelson, "Wages and Interest," 911.

¹⁷¹Schumpeter was one of the few historians of economic thought to note that the Ricardian value theory "forms no part of Marx's teaching" (*History of Economic Analysis* [New York, 1954], 597), and even he had believed otherwise earlier (*Capitalism, Socialism and Democracy* [New York, 1950], 23) Veblen has pointed out much earlier that despite the resemblance of the Marxian doctrine to "the labor-value theory of Ricardo," in fact "the relationship between the two is that of a superficial coincidence in their main propositions rather than a substantial identity of theoretic contents." Thorstein Veblen, "The Socialist Economics of Karl Marx and His Followers," *Quarterly Journal of Economics*, Aug. 1906, 587. He also saw what Marx's correspondence later confirmed, that the opening chapter of *Capital* was not an attempt to prove the notion of value (*Ibid.*, 585).

and later rediscovered his contribution independently. Among these advances were:

1. The systematic use of successive approximations. Long before Marx wrote *Capital*, Ricardo had been criticized for using his highly abstract models as a basis for direct conclusions about the real world—the so-called “Ricardian vice.”¹⁷² But unlike other critics who devoted themselves to an elaborate and often naive empiricism, Marx attempted to trace the “intermediate links”¹⁷³ between the abstract concepts and the concrete manifestations. While unsparring in his criticism of Ricardian abstractions, Marx also scorned those whose “lack of a theoretical bent” lead them to “snatch clumsily at the empirical material before them. . . .”¹⁷⁴ Here Marx was indebted to Hegel, though he could still with justice claim to be the first economist to apply what he called the “dialectical method.”

2. The treatment of price theory as essentially allocation and distribution theory. Earlier economists had discussed price theory either as an important subject in itself or as a means of establishing a numeraire for discussing aggregates. Marx established his numeraire by definition as Keynes was later to do. He was not concerned with relative prices in equilibrium as such,¹⁷⁵ but with the dynamic process which tended towards such an equilibrium, and with disequilibrium prices as symptoms of allocational imbalance and harbingers of crises.

3. *Capital* pioneered in business cycle theory, not only in the thoroughness of its treatment, in suggesting specific concepts and hypotheses, but more fundamentally in treating the business cycle as an important problem to be dealt with in and of itself, rather than a subject to be backed into inadvertently by admitting the possibility of temporary depression under certain circumstances.

In Marxian economics, as in other areas, “Marx” must be understood as merely a convenient way of referring to both Marx and Engels. Engels’ priority in developing parts of the Marxian vision should be noted, particularly in view of some attempts to disparage his role.¹⁷⁶ He developed the Marxian theory of crises before Marx and originated the concept of the “reserve army of the unemployed.”¹⁷⁷ It was unfortunate that circumstances would not

¹⁷²Richard Jones, *An Essay on the Distribution of Wealth and on the Sources of Taxation* (London: John Murray, 1831), vii. William Whewell, “Prefatory Notice,” Richard Jones, *Literary Remains* (London: John Murray, 1859), xii–xiii. The term “Ricardian vice” was, of course, coined much later by Schumpeter: *History of Economic Analysis*, 472–3; *Essays of J. A. Schumpeter*, ed. R. V. Clemence (Cambridge, Mass., 1951), 150.

¹⁷³*Theories of Surplus Value*, 202, 282.

¹⁷⁴*Ibid.*, 133.

¹⁷⁵He disavowed, for example, any interest in the “dull and tedious quarrel over the part played by Nature in the formation of exchange value.” *Capital*, I, 94. See also note 167 above.

¹⁷⁶For example, Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, 39n.

¹⁷⁷*The Condition of the Working Class in England*, 82. It should be noted further that although the expansions and contractions of the “reserve army” have been considered by interpreters to determine wages in the Marxian system (Samuelson, “Wages and Interest,” 908), in *Capital* they determine only the direction of cyclical fluctuations of wages, not the level around which the fluctuations take place, and certainly not *secular* changes in wages. “. . . the expansion and contraction of the industrial reserve army . . . correspond to the periodic changes of the industrial cycle.” *Capital*, I, 699.

permit his taking a more active part in the writing of *Capital*.¹⁷⁸ With his greater facility of exposition, perhaps *Capital* would have been completed earlier, understood better, and subjected to rational criticism instead of remaining so long a shadowy enigma at which many shafts have been vainly hurled.

¹⁷⁸Engels construed his role of editor of the posthumous volumes of *Capital* very narrowly—probably more narrowly than Marx had intended, in view of his extensive briefings of Engels and his message relayed through his daughter that Engels should “make something” of the manuscripts he left (*Capital*, II, 1, 11; III, 12, 14). It was out of the question for Engels to have actively collaborated in the writing of *Capital* during Marx’s lifetime, despite the latter’s desire to make him a co-author (*Correspondence*, 209–10) since he was busy earning money as a businessman to subsidize Marx. The period between his collaboration with Marx on the *Communist Manifesto* in 1848 and his *Anti-Dühring* in the mid 1870’s was largely barren for this reason. Another factor of uncertain weight was Engels’ ideological vulnerability during this period because of his occupation. As Engels pointed out to Marx, their enemies among the socialists were certain to say: “The fellow is sitting in Manchester exploiting the workers, etc.” (*ibid.*, 188).